

Message Text

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ACTION EA-09

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 DODE-00 PM-04 H-01 L-03
PA-01 PRS-01 AGRE-00 AS-01 /102 W
-----082114 250132Z /63

P R 240851Z JUN 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 4717

INFO AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMEMBASSY TAIPEI

USMISSION GENEVA

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USMTN

EO 11652: N/A

TAGS: ETRD, EFIN, EAGR, EIND, MTN, GATT, KS

SUBJECT: ROKG PLANS FURTHER IMPORT LIBERALIZATION MEASURES

REF: (A) SEOUL 4971, (B) SEOUL 5246, (NOTAL), (C) SEOUL 5210
(NOTAL) (D) SEOUL 4941 (NOTAL)

SUMMARY: ACCORDING TO MINISTRY OF COMMERCE AND INDUSTRY
(MCI) SOURCES, MCI WILL SHORTLY ANNOUNCE A FURTHER IMPORT
LIBERALIZATION MEASURE WHICH WILL EASE THE DEGREE OF IMPORT
RESTRAINT ON A GROUP OF ABOUT 300 ITEMS. ACCORDING TO
MCI CALCULATIONS, THE COMBINATION OF THIS MEASURE, THE
RECENT TRADE PLAN REVISIONS AND A PREVIOUSLY PLANNED
SHIFT OF 20 MORE ITEMS TO AUTOMATIC APPROVAL
STATUS (REF A) WILL INCREASE SECOND HALF 1977 IMPORT OF THE
AFFECTED ITEMS BY ABOUT \$400 MILLION. EXPECTED SHORT-
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FALLS IN IMPORTS OF VARIOUS OTHER ITEMS, HOWEVER, WILL
NARROW THE NET INCREASE TO \$200 MILLION. THESE IMPORT
LIBERALIZATION MEASURES ARE PROMPTED BY A COMBINATION
OF: (1) CONCERN OVER EXCESSIVE DOMESTIC MONETARY
EXPANSION; (2) THE NEED TO DAMPEN THE INFLATIONARY
POTENTIAL OF THE PLANNED JULY 1 INTRODUCTION OF A
VALUE ADDED TAX (VAT); AND (3) KOREA'S DESIRE TO

DEMONSTRATE TO ITS TRADING PARTNERS ITS COMMITMENT OT
LIBERALIZING IMPORTS AS CIRCUMSTANCES PERMIT. WHILE
WE BELIVE THE ROKG COULD AND SHOULD MOVE AHEAD EVEN
MORE FORCEFULLY WITH IMPORT LIBERALIZATION, THE COMBINED
EFFECT OF THESE MEASURES SHOULD CREATE A GENERALLY MORE
LIBERAL IMPORT CLIMATE IN KOREA FOR THE FINAL SIX
MONTHS OF 1977. WE RE STILL HOPEFUL THE ROKG
WILL MAKE A MORE FUNDAMENTAL COMMITMENT TO THE GRADUAL
DISMANTLING OF THE IMPORT CONTROL SYSTEM ITSELF WHEN
IT INTRODUCES ITS LONGER-TERM IMPORT LIBERALIZATION
PROGRAM. MCI SOURCES SAY THEY ARE STILL HOPING TO
ANNOUNCE THE LATTER PROGRAM BY YEAR'S END. END SUMMARY

1. PARK PIL-SOO, ASSISTANT MINISTER FOR COMMERCE,
MINISTRY OF COMMERCE AND INDUSTRY (MCI) HAS PROVIDED
US FURTHER BACKGROUND ON THE ROKG'S SHORT-TERM PLANS
FOR IMPORT LIBERALIZATION. IN ADDITION TO THE TRADE
PLAN REVISIONS AND THE 20 ADDITIONAL ITEMS THAT WILL
BE SHIFTED TO AUTOMATIC APPROVAL STATUS IN A SEPARATE
ANNOUNCEMENT LATER THIS MONTH (SEE REF A), PARK
INDICATED THERE WILL BE ANOTHER SEPARATE ACTION WHICH
WILL EASE THE DEGREE OF IMPORT RESTRICTIVENESS IMPOSED
ON ABOUT 300 ITEMS.

2. THIS LATTER GROUP OF 300 ITEMS COMPRISES A RANGE
OF RAW OR INTERMEDIATE MATERIALS USED IN PRODUCTION
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FOR DOMESTIC CONSUMPTION. IMPORTS OF THESE ITEMS ARE
SUBJECT TO CEILINGS OF ONE KIND OR ANOTHER ESTABLISHED
BY MCI AT THE BEGINNING OF EACH YEAR. THESE CEILINGS
ARE DETERMINED IN CONSULTATION WITH THE INDUSTRIES
INVOLVED, BUT PARK CONCEDED THAT MCI HAS GENERALLY
SET THE CEILINGS SOMEWHAT BELOW THE LEVELS REQUESTED
BY THE INDUSTRIES. WHILE UPWARD REVISIONS OF THE
ORIGINAL CEIVLINGS ARE OCCASIONALLY MADE DURING THE
COURSE OF A YEAR, THAT PROCESS HAS TYPICALLY BEEN
VERY ARDUOUS. ACCORDING TO PARK, UNDER THE NEW POLICY
TO BE ANNOUNCED, MCI WILL TAKE A MUCH MORE FLEXIBLE
ATTITUDE TOWARDS APPROVING IMPORTS IN EXCESS OF THOSE
CEILINGS.

3. PARK WAS RELUCTANT TO IDENTIFY AS YET THE SPECIFIC
COMMODITIES THAT WILL BE INCLUDED AMONG THE 20 ADDITIONAL
ITEMS TO BE SHIFTED TO AUTOMATIC APPROVAL AND THE LATTER
GROUP OF 300 ITEMS. HOWEVER, IN A SUBSEQUENT PRESS
CONFERENCE ON THE SAME GENERAL SUBJECT, MCI MINISTER
CHANG YIE-JOON INDICATED THAT LOCALLY UNAVAILABLE RAW
MATERIALS, CONSUMPTION GOODS, DURABLE GOODS AND INDUSTRIAL
EQUIPMENT ARE THE PRIME CANDIDATES FOR NEAR-TERM IMPORT

LIBERALIZATION. HE CITED THE SPECIFIC EXAMPLE OF BEEF TALLOW FOR INDUSTRIAL USE, SAYING IMPORTS ADEQUATE TO MEET ALL REASONABLE DOMESTIC DEMAND FOR THAT ITEM WILL BE AUTHORIZED. THE U. S. IS KOREA'S PRINCIPAL SUPPLIER OF BEEF TALLOW.

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4. PARK, MEANWHILE, CLAIMED THAT MCI HAS CALCULATED THAT THE COMBINED PACKAGE OF MEASURES WILL INCREASE IMPORTS OF THE ITEMS INVOLVED BY ABOUT \$400 MILLION OVER THE LEVELS ORIGINALLY PLANNED FOR 1977. THE TRADE PLAN REVISIONS WILL SUPPOSEDLY PRODUCE \$100 MILLION OF THIS INCREASE, THE SHIFT OF 20 MORE ITEMS TO AUTOMATIC APPROVAL WILL ADD ANOTHER \$100 MILLION AND THE NEW POLICY FOR THE 300 ITEM GROUP WILL ACCOUNT FOR THE REMAINING \$200 MILLION OF THE INCREASE.

5. AS DESCRIBED BY PARK, THE ROKG'S MOTIVATION FOR TAKING THESE LIBERALIZING MEASURES CONSISTS OF A COMBINATION OF: (1) CONCERN OVER THE DOMESTIC MONETARY IMPACT OF THE OVERLY-RAPID INCREASE IN KOREA'S FOREIGN EXCHANGE RESERVES; (2) A DECISION TO USE THE THREAT OF IMPORT COMPETITION AS ONE MEANS OF TRYING TO HOLD DOMESTIC PRICES IN LINE IN

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THE WAKE OF THE PLANNED JULY 1 INTRODUCTION OF THE VALUE ADDED TAX (VAT); AND (3) THE DESIRE TO DEMONSTRATE TO KOREA'S TRADING PARTNERS THE ROKG'S WILLINGNESS TO OPEN ITS MARKETS TO FOREIGN COMPETITION AS CIRCUMSTANCES PERMIT. COMMENT: WHILE THE MEASURES DESCRIBED ABOVE ARE BASICALLY ONLY FURTHER MANIPULATIONS WITHIN THE FRAMEWORK OF THE EXISTING IMPORT CONTROL SYSTEM, WE ARE ENCOURAGED TO SEE THE ROKG TURN TO IMPORT LIBERALIZATION AS ONE OF ITS POLICY MEASURES FOR DEALING WITH INFLATIONARY PRESSURES, A COURSE WE HAVE BEEN URGING FOR SOME TIME. WE UNDERSTAND FROM ECONOMIC PLANNING BOARD SOURCES THAT MCI'S CLAIM THAT THESE CHANGES WILL RESULT IN AN ADDITIONAL \$400 MILLION IN IMPORTS IS MISLEADING IN THAT THIS INCREASE IS EXPECTED TO BE PARTIALLY OFFSET BY LIKELY SHORTFALLS IN FORECASTED IMPORT LEVELS FOR VARIOUS OTHER ITEMS. AFTER ADJUSTING FOR BOTH FACTORS, THE CURRENT GOVERNMENT ESTIMATE IS THAT FULL YEAR IMPORTS WILL REACH \$10.5 BILLION F.O.B., RATHER THAN \$10.3 BILLION, MEANING A NET INCREASE OF \$200 MILLION. SINCE THE GOVERNMENT NOW EXPECTS EXPORTS TO TOTAL ABOUT \$10.2 BILLION INSTEAD OF \$10 BILLION, THE VISIBLE TRADE ACCOUNT IS STILL FORECASTED TO SHOW A DEFICIT OF \$300 MILLION. (PRESENT ROKG EXPECTATIONS FOR A MODEST OVERALL CURRENT ACCOUNT SURPLUS IN ITS 1977 BALANCE OF PAYMENTS (SEE REF C) ANTICIPATE THAT THIS VISIBLE TRADE DEFICIT WILL BE OFFSET BY A SLIGHTLY LARGER SURPLUS IN NET SERVICES AND TRANSFERS.) EPB SOURCES PRIVATELY ADMIT THEY ARE NOT FULLY CONVINCED IMPORTS WILL, IN FACT, REACH THE \$10.5 BILLION LEVEL AND THEY WOULD HAVE PREFERRED TO GO EVEN FURTHER ON IMPORT LIBERALIZATION AT THIS TIME. WHILE WE ALSO BELIEVE THE ROKG, IN

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OWN BEST INTERESTS, COULD AND SHOULD MOVE FASTER ON IMPORT LIBERALIZATION, THE MEASURES PARK PIL-SOO HAS OUTLINED, COMBINED WITH THE LOWERING OF PRIOR IMPORT DEPOSIT RATES AND THE TARIFF CUTS REPORTED IN REF B, SHOULD RESULT IN A GENERALLY MORE LIBERAL IMPORT CLIMATE OVER THE SECOND HALF OF 1977. WE ARE STILL HOPEFUL, MOREOVER, THAT THE LONGER-TERM IMPORT LIBERALIZATION PLAN, WHICH IS SUPPOSED TO BE ANNOUNCED LATER THIS YEAR (SEE PARA 6, REF A),

WILL SPELL OUT A COMMITMENT TO A MORE FUNDAMENTAL
SHIFT IN IMPORT POLICY AIMED AT A GRADUAL DISMANTLING
OF THE EXISTING SYSTEM ITSELF.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE LIBERALIZATION, IMPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 24-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL05281
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770227-0693
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770619/aaaaaqvl.tel
Line Count: 228
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8c3f0477-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 SEOUL 4971, 77 SEOUL 5246, 77 SEOUL 5210
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2034699
Secure: OPEN
Status: NATIVE
Subject: ROKG PLANS FURTHER IMPORT LIBERALIZATION MEASURES
TAGS: ETRD, EFIN, EAGR, EIND, KS, GATT, MTN
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/8c3f0477-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009